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SALADA FOODS LTD Annual Report 1964



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MAY 1 - 1965

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CORPORATE OFFICERS

GRANT HORSEY, Chairman

ARTHUR E. BEEBY, President

J. G. McKNIGHT, Vice President

F. A. DWYER, Secretary

JOHN A. McCLEERY, Treasurer



OPERATING SUBSIDIARIES AND DIVISIONS

CANADA	Salada Foods Ltd Canadian Division, Don Mills, Ontario Canadian Food Products Limited, Toronto, Ontario Clearbrook Frozen Foods Ltd., Clearbrook, British Columbia
UNITED STATES	Salada Foods Inc Salada-Junket Division, Woburn, Massachusetts Horsey Division, Plant City, Florida Plant Industries Inc., Plant City, Florida
UNITED KINGDOM	Askeys Limited, London, England Favorite Food Products Limited, Ilford, England
JAMAICA	Shirriff's (Jamaica) Limited, Kingston
BELGIUM	Biscuiterie Italo-Belge S.A., Brussels
BRITISH HONDURAS	British Honduras Fruit Company Limited, Stann Creek
AUDITORS	McDonald, Currie & Co., Toronto, Ontario, Canada.
TRANSFER AGENTS	Crown Trust Company, Toronto, Montreal, Winnipeg and Vancouver. The Chase Manhattan Bank, New York City.
HEAD OFFICE	855 York Mills Road, Don Mills, Ontario, Canada.

HIGHLIGHTS OF YEAR'S OPERATIONS

	1964	1963
Net Profit - - - - -	\$ 2,684,800	\$ 2,490,436
Earnings per share - - - - -	\$ 1.02	\$.95
Dividends per share - - - - -	\$.32	\$.24
Share owners' equity - - - - -	\$20,406,768	\$18,562,972
Shares outstanding - - - - -	2,628,138	2,628,138
Number of share owners - - - - -	11,022	11,133
Working capital - - - - -	\$10,867,346	\$11,054,587
Ratio of current assets to current liabilities -	2.0	2.2
Total assets - - - - -	\$41,329,008	\$37,999,569
Capital expenditures - - - - -	\$ 3,096,255	\$ 2,682,049

Les actionnaires qui préféreraient recevoir
leur rapport en français n'ont qu'à en aviser
le Secrétaire de Salada Foods Ltd.

LETTER TO SHARE OWNERS

This Annual Report is presented in simplified form in order that share owners may have at an earlier date, the audited financial statements for the fiscal year ending September 30th last.

For the same reason, the content is confined to essential information on operations and does not include promotional material on brands, processes or products. We feel that the share owner may prefer, in any case, to judge your Company's advertising, packaging and related marketing activities in the form in which they reach the consumer.

In this 12-month period, consolidated profits and earnings per share again showed an increase and all divisions of the business contributed to profits. Again, combined sales were higher than those for the previous year.

Two significant factors affected our industry at large during the year. Both were important considerations as far as your Company is concerned. The first was the price of sugar which can directly affect our profit margins. About this time last year, prices of this commodity were nearing an all-time high. They have now declined to more satisfactory levels. As a result, we do not face, for the present at least, erratic and unpredictable increases in manufacturing costs which under such circumstances are never wholly recoverable.

The second factor was the state of the citrus industry. The serious frost damage to Florida groves in 1962 has continued to affect fruit production adversely. Official crop estimates indicate that supplies will again be insufficient to meet the requirements of the U.S. domestic market at reasonable prices. Your Company has taken steps on the one hand to effect a sharp reduction in the overhead of our own Florida operations and, on the other, to expand according to plan, production from our alternative source in British Honduras. Our Florida facilities will still be fully capable of adequately filling selected minimum needs including those of our important Canadian market.

Our continuing development program in British

Honduras is intended to take care of anticipated growth in Canadian demand over the next decade. During the year, 1100 additional acres were cleared, prepared and planted bringing to 1600 acres the total of our own citrus groves. With fruit also available from independent growers, this program places your Company in the position of supplying, for the foreseeable future, a substantial share of its total needs from this new source while remaining able, as well, to take advantage of greater market opportunities as these present themselves.

The operations in British Honduras were again profitable. However, citrus growing areas in other parts of the world are still increasing production and are reaching the point at which the business becomes a highly competitive one. Should this additional production prove to be over-production, world citrus prices could be temporarily depressed and unit profits consequently reduced. But, in the opinion of your management, the more lasting result could be substantially increased volume. More attractive consumer prices can help make these citrus products more successfully competitive with other drinks and juices. Your Company is preparing itself to meet whatever situation may arise and, in the circumstances cited above, to benefit from them.

The established policy of strengthening your Company by capital expenditures which increase operating efficiency, by acquisitions and by the introduction of new products, continues to produce most satisfactory results.

Early in 1965, our plants in London, England, will be consolidated in one modern new plant at Aylesbury with expected reductions in costs. The existing plants of Canadian Food Products Limited are being expanded and modernized. This subsidiary has also acquired La Bonne Boulangerie Ltée, formerly Harris Bakery Inc., in Montreal. All of the capital stock of Clearbrook Frozen Foods Ltd., Clearbrook, British Columbia, was recently purchased. In particular, this addition will serve long term needs of our institutional business. It is, as well, an established growing

business in the West Coast market where it is located. In October 1964, Plant Industries Inc., our controlled Florida subsidiary, acquired the California Citrus Pulp Company at Colton, California. This is a logical extension of the business of Plant Industries. Both companies produce quality citrus fruit specialties for food manufacturers and thus sell complementary products in the same market.

The intense competition in the packaged food industry places added emphasis on new products and makes a broad scale, continuous program of research and market development, a necessity. In any given year, including that under review, because of the costs involved in the introduction as well as in the development of new lines, they should not be expected to contribute to current earnings but such programs do pay off over the long term.

During the past year, several of the newer products were marketed in volume due to widening consumer acceptance. Among them, Salada Instant Coffee, Salada and Shirriff True Fruit Drink Mixes and Shirriff Chip Dips registered rising public popularity. In the United States, the Salada-Junket division dealt effectively with an unusual situation. The spectacular sales performance by Salada's original Instant Iced Tea Mix led to attempted copying by competitors. The newcomers, in most instances, are now having second thoughts. The original Salada product retained its market leadership and is firmly established with the trade as a tea specialty of merit. Completely new and unique is the jelly dessert bearing the Picardie brand name. It represents the first major advance in this field since the Flavor Bud, still a Shirriff exclusive, was perfected in 1928.

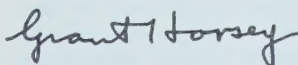
Several new products under development are close to the test marketing stage and share owners can expect announcements concerning them during the current year. On the management side, we are very interested in share owner reaction. We know from experience how helpful the support of the individual share owner can be in successfully launching this kind of marketing venture.

Your Company's "Chairman Emeritus" (a title rarely used in industry and, because of its rarity among other reasons, the one which most suitably honours Mr. J. William Horsey's contribution to the Company and to this industry) has repeatedly observed over the years that "people and not material things bring success in any worthy venture" and has put this precept to the test. Understandably, we continue to stress the human element in this business and emphasize it here in this letter to share owners because there is no system of accounting under which the value of this major asset can be shown in a balance sheet. Nevertheless, without it the progress reflected in this report would not have been possible. We wish therefore to put on record on your behalf as share owners and ours as management, sincere appreciation of the contributions made this year by the staff and personnel of your Company here in Canada and in other countries.

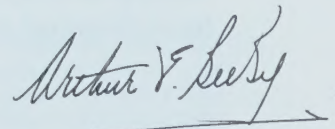
It is with profound regret that we record the death of the Honourable G. Peter Campbell, Q.C., a loyal Director and active member of the Executive Committee since 1955, whose advice and counsel will be greatly missed.

For the year past as in previous ones, the progress reported was immeasurably aided by the co-operation and support of customers, suppliers and share owners which we gratefully acknowledge.

On behalf of the Board of Directors,



GRANT HORSEY,
Chairman



ARTHUR E. BEEBY,
President

December 1, 1964

SALADA FOODS LTD AND ITS SUBSIDIARIES

ASSETS		1964	1963
CURRENT			
Cash - - - - -		\$ 1,821,816	\$ 4,722,187
Accounts receivable, less provision for doubtful accounts - - - - -		6,365,114	5,081,676
Inventories—valued at the lower of cost or market -		12,804,281	9,999,392
Prepaid expenses - - - - -		999,698	472,545
		<u>21,990,909</u>	<u>20,275,800</u>
INVESTMENTS—at cost			
Shares in subsidiary - - - - -			214,945
Shares of an associated company - - - - -		500,400	500,400
Mortgages receivable and sundry investments - -		1,549,263	1,442,919
		<u>2,049,663</u>	<u>2,158,264</u>
LAND, BUILDINGS, MACHINERY, EQUIPMENT AND LEASEHOLD INTERESTS—at cost - - - - -		25,797,910	22,841,652
Accumulated depreciation - - - - -		10,606,623	8,987,160
		<u>15,191,287</u>	<u>13,854,492</u>
EXCESS OF PURCHASE PRICE OF BUSINESSES ACQUIRED OVER NET ASSETS AT DATES OF ACQUISITION - -		1,628,169	1,228,525
ORGANIZATION AND FINANCING EXPENSES, less amounts written off - - - - -		468,980	482,488
		<u>\$41,329,008</u>	<u>\$37,999,569</u>

The explanatory information following the Nine Year Progress Report is an integral part of these financial statements and should be read in conjunction herewith.

Approved on Behalf of the Board

Grant Horsey

James L. Lewtas

Directors

CONSOLIDATED BALANCE SHEET AS AT SEPTEMBER 30, 1964

LIABILITIES

	1964	1963
CURRENT		
Bank loans (secured) - - - - -	\$ 864,616	\$
Accounts payable and accrued liabilities - - - -	8,189,675	6,543,527
Estimated taxes on income - - - - -	1,625,611	2,260,405
Current instalments of funded debt- - - - -	443,661	417,281
	<u>11,123,563</u>	<u>9,221,213</u>
FUNDED DEBT, less current instalments included above - -	7,304,063	7,595,040
MINORITY INTEREST IN CONSOLIDATED NET ASSETS - -	2,494,614	2,620,344

SHARE OWNERS' EQUITY

CAPITAL STOCK		
Authorized—		
5,000,000 common shares without nominal or par value		
Issued and fully paid—		
2,628,138 common shares - - - - -	8,424,629	8,424,629
RETAINED EARNINGS		
Reserve for contingency - - - - -	500,000	500,000
Unappropriated balance - - - - -	11,482,139	9,638,343
SHARE OWNERS' EQUITY - - - - -	20,406,768	18,562,972
	<u>\$41,329,008</u>	<u>\$37,999,569</u>

AUDITORS' REPORT TO THE SHARE OWNERS

We have examined the consolidated balance sheet of Salada Foods Ltd and its subsidiaries as at September 30, 1964 and the statements of consolidated earnings, consolidated retained earnings and consolidated source and use of funds for the year ended on that date and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. The consolidated financial statements incorporate figures in respect of certain subsidiaries which have been reported on by other auditors.

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the companies, the accompanying consolidated balance sheet and statements of consolidated earnings, consolidated retained earnings and consolidated source and use of funds, when read in conjunction with the explanatory information, are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the company and its subsidiaries as at September 30, 1964 and the consolidated results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

TORONTO
November 4, 1964

McDonald, Currie & Co.
Chartered Accountants

SALADA FOODS LTD AND ITS SUBSIDIARIES

STATEMENT OF CONSOLIDATED EARNINGS For The Year Ended September 30, 1964

	1964	1963
Operating profit before the items below - - - - -	\$ 6,803,751	\$ 6,963,223
Deduct: Provision for depreciation - - - - -	1,459,706	1,342,739
Interest on funded debt - - - - -	453,234	476,649
Executive remuneration - - - - -	148,500	141,558
Legal fees - - - - -	51,648	72,672
Amortization of financing expenses - - - - -	16,838	18,517
Directors' fees - - - - -	13,950	11,717
	<u>2,143,876</u>	<u>2,063,852</u>
	4,659,875	4,899,371
Investment income - - - - -	62,963	37,689
Capital gain or (loss) on sale of fixed assets - - - - -	(27,232)	94,504
	<u>4,695,606</u>	<u>5,031,564</u>
Profit before provision for taxes on income - - - - -	1,900,000	2,400,000
	<u>2,795,606</u>	<u>2,631,564</u>
Portion of operating profit of subsidiaries applicable to minority interest - - - - -	110,806	141,128
Net Profit for the year - - - - -	<u><u>\$2,684,800</u></u>	<u><u>\$2,490,436</u></u>

STATEMENT OF CONSOLIDATED RETAINED EARNINGS
FOR THE YEAR ENDED SEPTEMBER 30, 1964

	1964	1963
Balance at Beginning of Year		
Retained Earnings - - - - -	\$10,138,343	\$ 8,366,020
Appropriation in 1963 to a reserve for contingency relating to citrus operations - - - - -	500,000	500,000
	<u>9,638,343</u>	<u>7,866,020</u>
Unappropriated balance - - - - -	2,684,800	2,490,436
Net profit for the year - - - - -	<u>12,323,143</u>	<u>10,356,456</u>
	841,004	612,558
Dividends - - - - -		105,555
Capital loss on disposal of Shoreline Division - - - - -		
Unappropriated balance at end of year - - - - -	<u><u>\$11,482,139</u></u>	<u><u>\$ 9,638,343</u></u>

SALADA FOODS LTD AND ITS SUBSIDIARIES
STATEMENT OF CONSOLIDATED SOURCE AND USE OF FUNDS
For the Year Ended September 30, 1964

SOURCE OF FUNDS	1964	1963
Net profit for the year - - - - -	\$2,684,800	\$2,490,436
Provision for depreciation and amortization of financing expenses - - - - -	1,476,544	1,361,256
Other charges not requiring cash - - - - -		27,908
Total from operations - - - - -	4,161,344	3,879,600
Issue of capital stock - - - - -		711,454
Disposal of fixed assets and leasehold interests less profit thereon - - - - -	299,754	489,208
Decrease in investments - - - - -	108,601	
	<u>4,569,699</u>	<u>5,080,262</u>
USE OF FUNDS		
Expenditures for fixed assets and leasehold interests - -	3,096,255	2,682,049
Increase in investments - - - - -		650,162
Dividends - - - - -	841,004	612,558
Excess of purchase price of businesses acquired over net assets at dates of acquisition - - - - -	399,644	
Reduction in funded debt - - - - -	290,977	426,445
Decrease in minority interest - - - - -	125,730	78,681
Increase in organization and financing expenses - - -	3,330	
Capital loss on disposal of Shoreline Division - - - -		105,555
	<u>4,756,940</u>	<u>4,555,450</u>
INCREASE OR (DECREASE) IN WORKING CAPITAL - -	<u>\$ (187,241)</u>	<u>\$ 524,812</u>

SALADA FOODS LTD
NINE YEAR PROGRESS REPORT

	<u>1964</u>	<u>1963</u>
NET PROFIT FROM OPERATIONS - - - - -	\$ 2,712	\$ 2,395
Capital gains (losses) on sale of fixed assets - - - - -	(27)	95
Net profit for the year - - - - -	2,685	2,490
Earnings per share of common stock outstanding at year end* -	1.02	.95
Dividends paid per share of common stock* - - - - -	.32	.24
*Adjusted for common stock subdivision in 1959; 1958 earnings per share adjusted for conversion of preferred shares.		
Capital gains (losses) on sale of operating divisions, trademarks and investments after income taxes applicable thereto - - - - -		(106)
ASSETS, LIABILITIES AND SHARE OWNERS' EQUITY		
Current assets - - - - -	\$21,991	\$20,276
Current liabilities - - - - -	11,124	9,221
Working capital - - - - -	10,867	11,055
Investments - - - - -	2,050	2,158
Fixed assets and leasehold interests—net - - - - -	15,191	13,855
Excess of purchase price of businesses acquired over net assets at dates of acquisition - - - - -	1,628	1,229
Organization and financing expenses - - - - -	469	482
Total assets - - - - -	41,329	38,000
Funded debt - - - - -	7,304	7,595
Minority interest - - - - -	2,495	2,621
Share owners' equity - - - - -	20,407	18,563

(All amounts are expressed in thousands except per share statistics)

ND ITS SUBSIDIARIES

SCAL YEAR ENDED SEPTEMBER 30

<u>1962</u>	<u>1961</u>	<u>1960</u>	<u>1959</u>	<u>1958</u>	<u>1957</u>	<u>1956</u>
\$ 1,499	\$1,843	\$1,716	\$1,298	\$1,105	\$ 494	\$ 374
(74)	196		125	22	24	
<u>1,425</u>	<u>2,039</u>	<u>1,716</u>	<u>1,423</u>	<u>1,127</u>	<u>518</u>	<u>374</u>
.56	.81	.80	.68	.60	.46	.39
.30	.27	.24	.23	.20	.20	.12

1,101 287

\$19,438	\$18,118	\$14,554	\$13,097	\$11,303	\$13,631	\$4,031
8,908	6,801	5,122	5,603	4,757	8,081	2,491
<u>10,530</u>	<u>11,317</u>	<u>9,432</u>	<u>7,494</u>	<u>6,546</u>	<u>5,550</u>	<u>1,540</u>
1,508	1,781	559	1,426	869	788	205
13,005	11,952	9,189	8,875	6,839	6,850	1,976
1,255	923	435	128	118	118	100
502	524	503	526	552	571	105
35,708	33,298	25,242	24,055	19,684	21,960	6,419
8,021	8,411	8,797	9,202	8,213	8,171	2,018
2,699	2,701	230	4	7	13	22
<u>16,079</u>	<u>15,385</u>	<u>11,093</u>	<u>9,244</u>	<u>6,705</u>	<u>5,694</u>	<u>1,887</u>

EXPLANATORY INFORMATION ON THE CONSOLIDATED FINANCIAL STATEMENTS

BASIS OF CONSOLIDATION

The accounts of all subsidiaries have been consolidated. Fixed assets and long term liabilities of the United States subsidiaries have been converted to Canadian funds at par, and those of other foreign subsidiaries have been converted to Canadian funds at the exchange rates in effect when they were acquired. Current assets and current liabilities of foreign subsidiaries have been converted to Canadian funds at the exchange rates in effect at September 30, 1964.

FUNDED DEBT

5% Serial Debentures, maturing December 15, 1965 - - - - -	\$60,000
5% Sinking Fund Debentures, maturing December 15, 1975—\$15,000 per year to 1965 and thereafter increasing annually from \$75,000 in 1966 to \$90,000 in 1974 - - - - -	1,265,000
6% Sinking Fund Debentures, maturing July 1, 1977—\$236,000 in 1965 and increasing to \$494,000 by 1976 - -	4,820,000
6½% Debenture—Industrial Development Corporation, Jamaica—payable by 1969 - - - - -	98,426
5% Mortgage, maturing October 1, 1968 in annual instalments of \$100,000	721,300
Sundry Notes and Mortgages - - -	339,337
	<u>\$7,304,063</u>

CAPITAL STOCK

25,000 common shares are reserved for the following options granted to officers of the company:

Number of Shares	Option Price	To Be Exercised By
15,000	\$8.20	September 30, 1965
10,000	\$8.80	August 14, 1968

INCOME TAXES

The companies' practice is to claim for income tax purposes the maximum depreciation permitted under taxation law. Because this exceeds the depreciation recorded in the accounts, taxes otherwise payable for the year have been reduced by \$160,000. In total, the accumulated depreciation claimed for tax purposes is \$1,110,000 more than the accumulated depreciation recorded in the accounts.

LEASES

A lease with Salada Realty Limited requires Salada Foods Ltd to pay all expenses of Salada Realty Limited and all amounts falling due in each year on its first mortgage bonds. \$2,069,000 of such bonds were outstanding at September 30, 1964.

Rentals under lease agreements of subsidiaries which extend more than five years from September 30, 1964 aggregate approximately:

1965-1969	\$2,468,000
1970-1974	1,940,000
1975-1979	1,324,000
1980-1984	835,000
1985 and after	1,577,000

MINORITY INTEREST

Preference shares of Canadian Food Products Limited, a subsidiary, are included in the minority interest on the consolidated balance sheet. That company has certain obligations to purchase these shares for cancellation or to redeem them at a premium.

COMMITMENTS

Commitments to purchase fixed assets and other businesses which are not reflected in the accompanying consolidated balance sheet amount to approximately \$1,250,000.

